

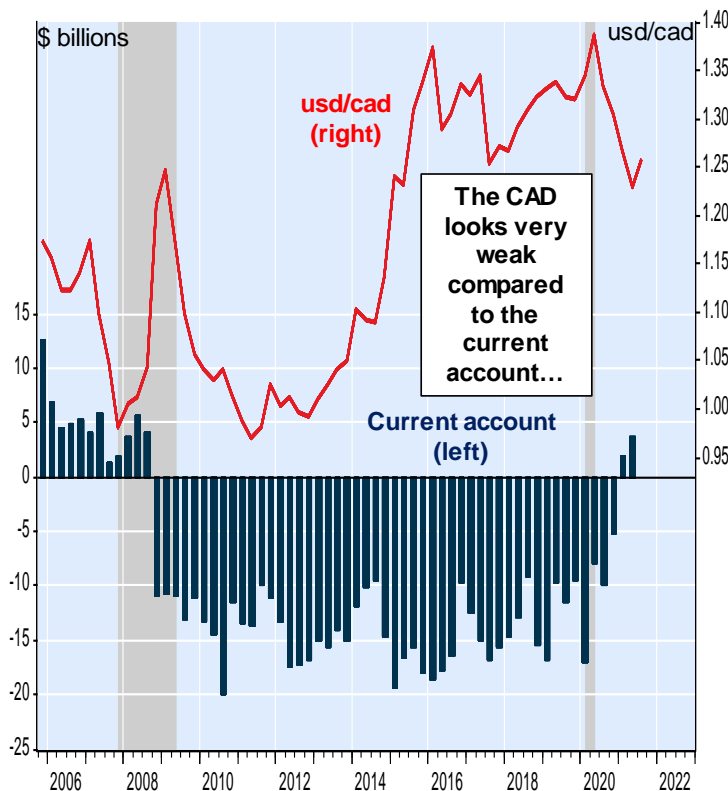
Canada Watch

Stéfane Marion

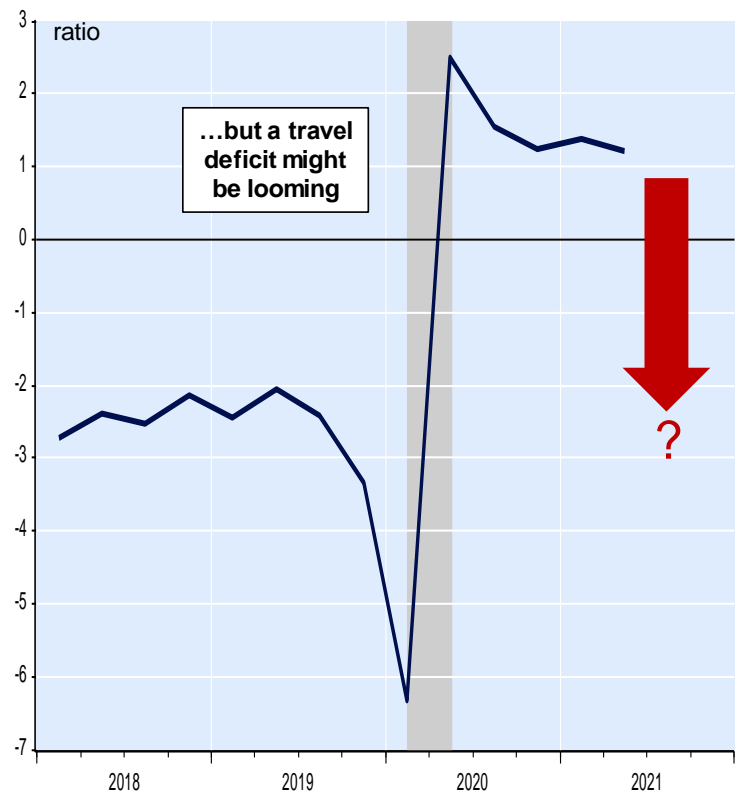
Canada posted a current account surplus for the second consecutive quarter in Q2 2021, according to newly released data. The surplus reached \$3.6 billion during the quarter, the highest since 2008. As today's chart shows, the last time we saw this all-important component of the balance of payments painted in such black ink, the Canadian dollar was trading at parity with the USD. Why is the CAD so weak relative to the current account position? In our view, it has to do with the temporary nature of the surplus. It is important to keep in mind that Canada has traditionally run a deficit in international travel, i.e., it is a net exporter of travelers and their expenses. The Covid-19 pandemic, by disrupting international travel, has limited outbound spending. As a result, for the first time, our country is experiencing travel surpluses. This situation may continue into the fourth quarter as Canadian tourists are still unable to enter the United States by land. As things normalize, we can expect the travel account to return to a deficit. As can be seen, a return to pre-crisis levels could reduce the current account surplus by as much as \$4-5 billion. The CAD may be undervalued now, but not by as much as the current account balance suggests. This is why our latest **FOREX** only predicts a modest appreciation of the CAD to CA\$1.22 per USD in the coming months.

Canada: Why is the CAD so weak despite a current account surplus?

Canada's current account balance vs. CA-US exchange rate



Balance on the travel account



Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Paul-André Pinsonnault

Senior Economist
paulandre.pinsonnault@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

Alpa Atha

Fixed Income Economist
alpa.atha@nbc.ca

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